

# **EXHIBIT W**

# Inotiv, Inc.

(NOTV – \$6.82)

**Hold**

Price Target: \$7

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## Bad Actors Put Drug Discovery At Risk, We Think Likely Overdone But Stepping To Sidelines Given Uncertainties; Downgrade To Hold And Lower PT To \$7

Yesterday, Inotiv filed an 8-K stating on November 16<sup>th</sup> the Company became aware that the U.S. attorney's office for the southern district of Florida has criminally charged employees of Inotiv's non-human primate (NHP) supplier. The employees and Cambodian government officials were charged with the illegal importation of NHPs into the U.S. from December 2017 through January 2022. While the worst-case scenario is unlikely to occur, the uncertainty around the future of the Company's largest NHP supplier is too significant to downplay.

NHPs are expected to be a significant growth driver and 40%+ revenue contributor in 2023. The go forward status of the Cambodian supplier, Vanny Bio Research (Cambodia) Corporation, is unknown. One of the eight indicted, James Man Sang Lau, is the founder and owner of Vanny Bio Research (Cambodia) Corporation. Another indicted is the General Manager. Two of the others indicted are government officials from Cambodia. At a minimum, this does not instill confidence in Inotiv's NHP supply.

If any of the indicted are found guilty, we think it could disrupt Inotiv's supply, negatively impacting 2023 financial projections. If the worst-case scenario occurs and the supply is cut off entirely, we believe Inotiv's ability to service its debt could be in question and covenants could be tripped. We think the worst-case scenario is unlikely to occur. However, with no known precedent scenarios, the unknown likelihood of additional issues at the supplier, and the potential for penalties to be incurred by Inotiv (again, we think unlikely but it is an unknown), we think it is best to move to the sidelines. Given the importance of NHPs to drug development, to the extent it is possible in a safe and humane way, we think the supply of NHPs will be protected.

Once we have confirmed the all-clear on Inotiv's supply of NHPs and lack of involvement in any of the misdealing, we think shares offer significant upside to trade near comps in the teens EBITDA range. We are leaving our estimates unchanged as we await better clarity on the matter. We are downgrading our rating to Hold and lowering our PT to \$7.

## HIGHLIGHTS

- **What Happened?** – Eight people, including two Cambodian Government officials, were indicted in the District of Florida for their involvement in the importation of wild-caught primates into the U.S. The charges were in connection with seven specific imports between July 2018 and December 2021. According to the indictment, the defendants used false documentation to pass off wild-caught macaques as captive-bred macaques. The wild-caught macaques, mixed in with captive-bred macaques, were shipped to a Miami facility as well as one in Alice Texas using false documents. The Miami broker was not identified and is listed as an unindicted co-conspirator. While not confirmed, we think it is likely the Alice, Texas recipient is Envigo or OBRC, both of which were acquired by Inotiv.

Changes	Previous	Current
Rating:	Buy	Hold
Price Target:	\$60	\$7
FY22E Rev (M):	–	\$550.2
FY23E Rev (M):	–	\$650.0
FY22E AEBITDA (M):	–	\$95.8
FY23E AEBITDA (M):	–	\$111.4

Profile	
Price:	\$6.82
Shares Out (M):	25.5
Market Cap (M):	\$174
EV (M):	\$491
Avg. Vol (M):	0.2
Insiders Own:	22.7%
Short Int % Float:	8.6%
Net Cash / Share:	(\$12.45)
Dividend Yield:	NA

Rev (M)	2021A	2022E	2023E
Dec	\$17.9	\$84.2A	\$142.0
Mar	\$18.8	\$140.3A	\$153.0
Jun	\$22.9	\$172.7A	\$167.0
Sep	\$30.1	\$153.0	\$188.0
FY	\$89.6	\$550.2	\$650.0

EPS	2021A	2022E	2023E
Dec	(\$0.03)	(\$3.93A)	(\$0.28)
Mar	(\$0.06)	(\$0.24A)	(\$0.13)
Jun	\$0.18	(\$0.15A)	\$0.02
Sep	\$0.59	(\$0.39)	\$0.21
FY	\$0.83	(\$4.21)	(\$0.17)
AEBITDA (M)	\$9.3	\$95.8	\$111.4

Valuation	2021A	2022E	2023E
EV/Sales	5.5x	0.9x	0.8x
EV/AEBITDA	NM	5.1x	4.4x

Management	
CEO	Robert Leasure, Jr.
CFO	Beth Taylor

Company Description
Inotiv is a full suite discovery through preclinical contract research organization. With the acquisition of Envigo, Inotiv is now a leading provider of research models.

- **How Large Is This Supplier?** – Unfortunately, this is Inotiv’s primary NHP supplier. While we are unsure of exactly what percent, we assume it is over 50%.
- **Is Inotiv (or the acquired businesses) At Fault?** – Not that we know of as of now. Our understanding is Envigo and OBRC received NHPs with proper documentation making them legal for clinical use purposes. Assuming the allegations are correct, the documentation was falsely labeling the NHPs as captive-bred.
- **How Big Of An Impact To Financials?** – We hope and think there is a fair chance there is minimal impact. We think U.S. officials will do whatever they can to ensure drug discovery can continue. However, if this supplier’s ability to export NHPs to Inotiv is disrupted, this could significantly hit a 40% revenue line item. If this were to occur, we think AEBITDA would remain above the debt service requirement (we estimate interest expense of <\$10M/quarter). However, we think it is likely AEBITDA would fall below \$90M (annualized), which is the required AEBITDA level to remain in compliance with its 4.25x leverage covenant. The Company has access to a \$15M revolver if needed for a short-term liquidity bridge.
- **Balance Sheet** – Inotiv ended FQ3 (Jun) with \$21M in cash and \$339M in debt vs. \$47M in cash and \$338M in debt at the end of Q2’22. Inclusive of the recently drawn delayed-draw-term loan of \$35M, we estimate debt is >\$400M and cash is at ~ \$35M. Our table below illustrates Inotiv’s minimum AEBITDA requirement of \$89M.

AEBITDA Needed To Stay In Compliance With Covenant	
<b>Debt</b>	
(+) Term Loan (Envigo)	\$165.0
(+) Draw (ILS)	\$35.0
(+) Draw (OBRC)	\$40.0
(+) Draw DDTL 10-12-2022	\$35.0
(+) Convert	\$140.0
<b>Cash</b>	
(-) Cash (Est.)	\$35.0
<b>Net Debt</b>	\$380.0
(/) Max Leverage Allowed	4.25x
<b>Minimum AEBITDA Needed</b>	\$89.4

## INVESTMENT THESIS AND VALUATION

### INVESTMENT THESIS

Inotiv is emerging as a market-leading CRO (contract research organization) focused on offering white-glove services to the preclinical segment of outsourced R&D. Envigo, a pure-play research model provider (e.g., non-human primates, rabbits, rats, mice for preclinical testing) complements the preclinical offering. The purchase expanded the product offering, increased potential customer stickiness, and introduced new cross-selling opportunities across Envigo’s customer base of 2,550. While shares are cheap on all counts, we think the NHP supplier uncertainty, which could lead to balance sheet concerns, will keep shares range-bound.

### VALUATION

We derive our \$7 PT by applying a 5x multiple to our FY23 EBITDA estimate of \$111M. In our valuation, we use a share count of 30M to account for all outstanding and

potentially dilutive securities. The math works out to 5x FY23 EBITDA of \$111M, minus net debt of \$318M, divided by 30M shares.

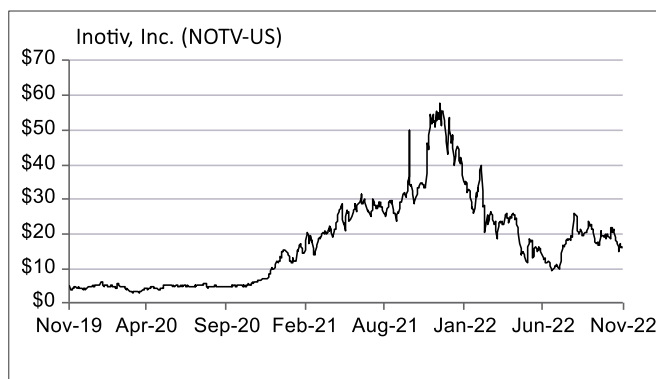
## RISK FACTORS

We believe an investment in **Inotiv** involves the following risks.

- **Covid** – We expect Covid headwinds to abate over time. However, we are uncertain of the long-term implications of the pandemic and its negative impact on the demand for certain Inotiv offerings. We believe financial performance could be lumpy exiting Covid as different geographies exit the pandemic from different levels of strength.
- **Acquisition Risk** – A part of the Company's business is the acquisition of peers. Acquisitions are subject to regulatory approval. The inability to successfully integrate and harvest synergies that are outlined by management could negatively impact NOTV shares.
- **Leverage** – The Company has taken on debt to fund acquisitions. The maximum secured leverage ratio covenant outlined in the credit agreement is 3.25x. Following FQ3 results, NOTV is comfortably in compliance with its covenants. However, we think the heightened leverage profile is a risk. If a covenant is broken, we expect shares to be negatively impacted.
- **Competition** – The CRO market remains highly competitive and there are well-capitalized public and private companies in the space. Inotiv has shown significant growth while offering a white-glove service to emerging pharma players. Although we believe Envigo diversifies the core customer base and de-risks the concentration on emerging players, we think there is competitive risk if larger players appetite for emerging pharma changes.
- **Regulation** – The Company is subject to various regulations designed to ensure the quality and integrity of data. Inotiv operates animal research facilities, these are subject to a variety of laws and regulations, such as The Animal Welfare Act. Animal research facilities also must maintain standards of operations for the humane treatment of animals in their custody. They are also subject to rules regarding hazardous waste and HIPAA data rules and regulations. Any adverse regulatory move could negatively impact shares.
- **Tight Labor Market** – With growth, the Company will be required to invest in its employee base. If skilled workers cannot be found and wages continue to rise, G&A costs for Inotiv would be expected to increase which could negatively impact profitability.
- **Supply Chain** – Extension of the supply chain constraints would lead to lengthened time before raw materials, PPE equipment, and reagents can be sourced. As a result of the Chinese ban on the transportation of wild animals, the supply of non-human primates for Envigo has been negatively impacted. A worsening of the shutdown in China or a long-term ban on the transportation of animals in China could negatively impact the supply of NHPs. This could negatively impact revenue from NHPs which could hurt NOTV shares.

## Financial Model

Inotiv, Inc.	Acq (1)		Acq (2)		Acq (2)		Acq (3)		Acq (1)		Acq (1)						
Fiscal Year End Sep. 30	2019	2020	2021					2022					2023				
Income Statement	2019A	2020A	Dec-20A	Mar-21A	Jun-21A	Sep-21A	2021A	Dec-21A	Mar-22A	Jun-22A	Sep-22E	2022E	Dec-22E	Mar-23E	Jun-23E	Sep-23E	2023E
(\$ in millions, except per unit amounts)			Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
Discovery and Safety Assessment (DSA)	43.6	60.5	17.9	18.8	22.9	30.1	89.6	32.8	39.1	49.2	43.0	164.1	39.0	43.0	50.0	53.0	185.0
Research Models and Service (RMS)	-	-	-	-	-	-	-	51.4	101.3	123.4	110.0	386.1	103.0	110.0	117.0	135.0	465.0
Total Revenue	43.6	60.5	17.9	18.8	22.9	30.1	89.6	84.2	140.3	172.7	153.0	550.2	142.0	153.0	167.0	188.0	650.0
Cost of DSA	30.4	42.2	12.0	12.5	15.2	19.7	59.4	20.6	26.8	27.4	28.0	102.8	26.9	28.8	33.0	33.9	122.6
Cost of RMS	-	-	-	-	-	-	-	44.3	68.8	94.3	82.5	289.9	75.2	79.2	83.1	94.5	332.0
Total Cost of Revenue	30.4	42.2	12.0	12.5	15.2	19.7	59.4	64.9	95.6	121.7	110.5	392.7	102.1	108.0	116.1	128.4	454.6
Gross Profit	13.2	18.2	5.9	6.3	7.6	10.4	30.2	19.3	44.7	50.9	42.6	157.5	39.9	45.0	50.9	59.6	195.4
Operating Expenses																	
Selling	2.9	3.4	0.6	1.2	1.0	0.8	3.5	2.7	4.6	4.8	5.5	17.7	5.8	6.2	6.2	6.2	24.4
Research and Development	0.6	1.0	0.0	0.0	0.1	0.3	0.4	-	-	-	-	-	-	-	-	-	-
General and administrative	9.8	17.0	5.0	5.4	7.8	12.1	30.4	13.3	21.3	21.7	22.0	78.3	21.3	22.2	23.9	25.9	93.3
Amortization of intangible assets	-	-	-	-	-	-	-	3.4	6.4	8.9	9.0	27.7	9.0	9.0	9.0	9.0	36.0
Start-up and Other	-	-	0.2	0.2	0.5	0.6	1.5	33.6	4.5	10.8	8.0	56.9	3.0	3.0	3.0	3.0	12.0
Total Operating Expenses	13.4	21.3	5.9	6.8	9.3	13.8	35.8	53.0	36.9	46.1	44.5	180.5	39.1	40.4	42.1	44.1	165.7
Operating Income (Loss)	(0.2)	(3.1)	0.0	(0.5)	(1.7)	(3.4)	(5.6)	(33.6)	7.9	4.8	(2.0)	(22.9)	0.8	4.6	8.8	15.4	29.7
Interest Expense, net	(0.6)	(1.5)	(0.3)	(0.4)	(0.4)	(0.5)	(1.7)	(4.8)	(7.5)	(8.4)	(8.4)	(29.3)	(8.4)	(8.4)	(8.4)	(8.4)	(33.8)
Other (Income) Expense	0.0	0.0	-	0.2	0.0	13.2	13.4	(57.7)	(0.1)	0.4	0.4	(57.0)	0.4	0.4	0.4	0.4	1.8
Total Other Expense	(0.6)	(1.5)	(0.3)	(0.2)	(0.4)	12.7	11.7	(62.6)	(7.7)	(8.0)	(8.0)	(86.2)	(8.0)	(8.0)	(8.0)	(8.0)	(32.0)
Net Income (Loss) Before Income Taxes	(0.8)	(4.5)	(0.3)	(0.7)	(2.2)	9.3	6.1	(96.2)	0.2	(3.2)	(10.0)	(109.2)	(7.2)	(3.4)	0.8	7.4	(2.3)
Income tax expense	0.0	0.1	0.0	0.0	(4.8)	(0.1)	(4.8)	(12.8)	6.8	0.3	-	(5.6)	-	-	0.2	1.9	2.1
Consolidated net income (loss)	(0.8)	(4.7)	(0.4)	(0.7)	2.6	9.4	10.9	(83.4)	(6.7)	(3.6)	(10.0)	(103.6)	(7.2)	(3.4)	0.6	5.6	(4.4)
Less: Net income (expense) attributable to noncont	-	-	-	-	-	-	-	(0.4)	(0.6)	0.2	-	(0.8)	-	-	-	-	-
Net Income (Loss) attributable to common sharehol	(0.8)	(4.7)	(0.4)	(0.7)	2.6	9.4	10.9	(83.0)	(6.1)	(3.7)	(10.0)	(102.8)	(7.2)	(3.4)	0.6	5.6	(4.4)
Net income (Loss) / share - Basic & Diluted	(\$0.08)	(\$0.43)	(\$0.03)	(\$0.06)	\$0.18	\$0.59	\$0.83	(\$3.93)	(\$0.24)	(\$0.15)	(\$0.39)	(\$4.21)	(\$0.28)	(\$0.13)	\$0.02	\$0.21	(\$0.17)
Weighted Avg. Shares Out. Basic & Diluted (M)	10.4	10.9	11.0	11.2	14.7	15.9	13.2	21.1	25.3	25.5	25.7	24.4	25.9	26.1	26.3	26.5	26.2
Operating Income (Loss)	(0.8)	(4.7)	(0.4)	(0.7)	2.6	9.4	10.9	(83.4)	(6.7)	(3.6)	(10.0)	(103.6)	(7.2)	(3.4)	0.6	5.6	(4.4)
Total adjustments	4.1	7.2	1.8	2.0	(0.4)	(5.0)	(1.6)	93.5	31.9	40.5	33.4	199.4	28.4	28.4	28.6	30.3	115.8
Adjusted EBITDA	3.3	2.5	1.5	1.3	2.2	4.3	9.3	10.1	25.3	37.0	23.5	95.8	21.2	25.0	29.3	35.9	111.4
Backlog	27.8	43.8	45.3	53.9	62.0	81.4	81.4	104.6	133.6	143.2	-	-	-	-	-	-	-
Book-To-Bill	1.07x	1.26x	1.16x	1.50x	1.53x	1.77x	1.52x	1.78x	1.52x	1.19x	-	-	-	-	-	-	-
Growth Y/Y																	
Total Revenue	66%	39%	38%	17%	45%	91%	48%	371%	648%	654%	409%	514%	69%	9%	-3%	23%	18%
Gross Profit	63%	38%	69%	21%	55%	124%	65%	229%	612%	566%	311%	422%	106%	1%	0%	40%	24%
Margins																	
Gross Profit	30%	30%	33%	33%	33%	34%	34%	23%	32%	29%	28%	29%	28%	29%	30%	32%	30%
Operating Income	NM	NM	0%	NM	NM	NM	NM	NM	6%	3%	NM	NM	1%	3%	5%	8%	5%
Adjusted EBITDA	8%	4%	8%	7%	10%	14%	10%	12%	18%	21%	15%	17%	15%	16%	18%	19%	17%
Balance Sheet Analysis																	
Total Cash and Equivalents	0.6	1.4	1.2	2.2	25	138.9	138.9	42.4	47.0	21.2							
Total Debt	16.6	27.4	27.1	26.2	44.4	165.6	165.6	260.6	337.6	338.8							
Net Cash / Share	(\$1.54)	(\$2.40)	(\$2.35)	(\$2.16)	(\$1.35)	(\$1.68)	(\$2.02)	(\$10.33)	(\$11.48)	(\$12.45)							

**IMPORTANT DISCLOSURES**

Source: FactSet

Initiation: January 31, 2022 – Rating: Buy - Price Target: \$60

February 11, 2022 – Rating: Buy - Price Target: \$75

June 14, 2022 – Rating: Buy - Price Target: \$50

August 11, 2022 – Rating: Buy - Price Target: \$60

November 18, 2022 – Rating: Hold - Price Target: \$7

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Buy rated stocks are expected to generate greater than 10% returns during the next 12 months. Hold rated stocks are expected to generate returns of 0% to 10% during the next 12 months. Sell rated stocks are expected to generate negative returns over the next 12 months and generally do not have a price target.

Information on our valuation methodology and risks can be found in the “Investment Thesis & Valuation” and “Risks” sections above.

**RATINGS DISTRIBUTION**

(as of Oct 5, 2022)

Rating	All Covered Companies (%)	Investment Banking Clients (%)
Buy	94.7%	19.7%
Hold	5.3%	0.0%
Sell	0.0%	0.0%

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